To: Sixto Aquino
Cc: Berta Heybey, John Molyneaux, Katerina Ntep, Barry Deren
From: Hana Scheetz Freymiller and Sarah Lane
Date: October 21, 2016
RE: Agricultural Credit Activity Impact Evaluation

As part of close out of the first Ghana Compact, the M&E team is weighing the potential benefits against the costs of a performance evaluation of the Agricultural Credit Activity. The two objectives of the final evaluation of a project at MCC are accountability and learning. In the case of the credit activity, we believe that these objectives have already been fulfilled through audits performed by the Office of the Inspector General and Ernst & Young.

This memo provides M&E's assessment and summarizes the status of the evaluation. M&E requests that senior management let us know if there are other issues that should be taken into account before canceling this evaluation and, if there are none, make a decision on whether to cancel the evaluation or not.

M&E Assessment for the Credit Activity

MCC originally planned to use an impact evaluation to measure the effect of increased access to credit. After challenges in implementation emerged, including widespread repayment issues, M&E intended to conduct a performance evaluation of the project. The goals of the evaluation included answering the following questions:

- What is the additive impact of credit on farmers' yields and incomes?
- Did access to credit lead to increases in productive inputs or changes in crop mix?
- Did the activity improve rural banks' abilities to assess, grant and manage agricultural loans?
- What led to the low repayment rates, and how can MCC avoid repeating those mistakes in the future?[1]

However, a review by MCC's Office of Inspector General and a forensic audit conducted by E&Y uncovered challenges in implementation that make it doubtful that an evaluation of the program would be feasible:

- **The Agricultural Credit Program (ACP) loans were not being repaid by the beneficiaries.** This indicates the program was not implemented as intended; moreover, actual implementation

[1] Ghana I M&E Plan

practices were not documented sufficiently to understand how loan recipients were selected, nor how loan receipts and obligations were understood by the recipients. Thus, any evaluation would not help MCC learn how to design and implement economically viable farm credit programs.

- **There were multiple failures in management and oversight by MiDA and the Bank of Ghana (BoG),**[2] including inadequate due diligence over the financial solvency of some of the PFIs, lack of oversight over loan decisions and administration, and lack of access to the bank documents necessary to monitor how project funds were disbursed and to which farmer groups.
- **The PFIs had poor capacity and poor internal controls over their loan portfolio,** including limited knowledge of the Farmer Business Organizations (FBOs), inadequate documentation on loan status, no evidence of whether loans were taken in a group or by an individual, and limited access to loan information.

The OIG audit report is available to the public on the OIG website, and it lays out many of the operational difficulties of the program and recommends remedial actions, which were undertaken by MCC. The Forensic Audit by E&Y uncovered the depth of the financial mismanagement, failures to adhere to the terms of the program, and failure to satisfy oversight responsibilities.

Based on the findings by E&Y, MCC determined that the MCC funding disbursed for the ACP had been misused. As a result, MCC requested that the Government of Ghana (GoG) refund all MCC funding disbursed for the ACP, minus amounts repayed and reallocated under the Compact. This final accounting led to the GoG reimbursing to MCC $6.9 million. MCC also communicated to the GoG that the ACP activity was deleted from the Compact, that MCC relinquished all rights and responsibilities with respect to the ACP, including any rights to records, audits, and reviews. Such relinquishment included that the GoG had no obligation with respect to monitoring or evaluation of the ACP.

In light of these existing reports, the refund, MCC having released all review responsibility, the improbability of learning, and the multiple challenges faced by the OIG, E&Y and NORC in compiling their reports, we recommend that MCC cancel any further evaluation of the Credit Activity.

[2] The Bank of Ghana was the implementing entity for the ACP.

Annex: Background and Evaluation Update for the Credit Activity

Background

MCC contracted the accounting firm Ernst & Young (E&Y) to investigate the failures in the program and conduct a forensic audit. The Forensic Audit included a review of the institutions that had a primary role in the implementation of the ACP, including MiDA, BoG, and the PFIs. The investigation covered the entire period from the date of the first disbursement in May 2008 till September 30, 2011. E&Y collected data at 23 active PFIs, auditing the credit files of 80 percent by number and 90 percent by outstanding indebtedness of ACP end-borrowers at each PFI. In addition, they also audited the credit files of all end-borrowers who still owed principal amounts of GH¢20,000 or more on September 30, 2011.

During their investigation, they delved into the financial conduct of participating institutions, including an evaluation of the compliance with appropriate RFI financial and accounting procedures, a review of client loans for accuracy and compliance with the intervention zone, and a review of loan losses to ensure compliance with lending procedures and the ACP Manual.

The Forensic Audit found multiple institutional failings, including BoG's failure to adhere to the operational terms of the IEA and MiDA's failure to satisfy its oversight responsibilities under both the IEA and the Compact. Without satisfactory oversight, the PFIs did not adhere to the terms of the ACP. E&Y found that the PFIs had poor internal controls over their loan portfolios and did not provide proper oversight on the loans given out through the ACP. These lapses include limited knowledge of the Farmer Business Organizations (FBOs) loan status, no evidence of whether loans were taken in a group of by an individual, embezzled funds, loans distributed in cash, and limited access to loan information.[3]

In light of the Forensic Audit, the MCC found that US$19,642,194 was misused in violation of the Compact and the Supplemental Agreement that governed the implementation of the ACP and must be refunded pursuant to the terms of the Compact. MCC recognized two offsets for the total refund expected of the Government: (1) previously approved reallocations to other compact Activities of US$6,936,904 of funds recovered under the ACP, and (2) the refund to MCC, or reallocation under the Compact, of the funds remaining in the ACP Repayment Account, which as of April 30, 2012 total US$5,764,291. For any reallocation of the current funds remaining in the ACP Repayment Account, such reallocation would reduce the amount of the Government's refund, similar to the prior reallocations of US$6,936,904. After taking the above into consideration, MCC requested the GOG repay US$6,940,999 on May 23, 2012.[4]

[3] ACP Forensic Audit, Cover Report, Ernst & Young

[4] MCC ACP Repayment Letter

Evaluation Update

The original evaluation plan was to use a quasi-experimental design to evaluate the impact of increased access to credit. Farmers who received credit would comprise the treatment group, while the comparison group was never fully defined. The obvious starting point was participating farmers who did not receive credit. However, farmers who sought credit likely had distinct qualities from those who do not, while farmers who were denied credit almost certainly had different characteristics from those who received loans. The halt in loan funding built into the program design would have provided an opportunity for a discontinuity design had the banks not continued to lend revolving loan funds.

As the project faced implementation challenges with the dispersal of loan funds, the team decided to set aside plans for a quasi-experimental evaluation and focus on a qualitative performance evaluation. In September 2011, MCC hired the National Opinion Research Center (NORC) to conduct a performance evaluation of the Credit Activity, among a host of other evaluations of Ghana Compact activities. The objective of this evaluation was to identify what went wrong with ACP and draw lessons learned.

However, there were disparities in NORC's initial review of the program between data from the field and information from MCC project leads. This experience revealed the challenges any evaluation by MCC would face obtaining accurate information on the project. Because of this, along with difficulty in procuring the necessary records, MCC decided to pause this performance evaluation and re-examine the findings of previous audits to see if they met MCC's criteria for evaluations.